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Message Text

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 AGRE-00 CIAE-00 COME-00
INR-10 LAB-04 NSAE-00 SP-02 STR-07 TRSE-00 FRB-03
OMB-01 /059 W
----------085054 200317Z /75
R 190341Z JUL 78
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 1665
INFO USMISSION GENEVA

C O N F I D E N T I A L HONG KONG 9343

FROM USTEXDEL

DEPT PASS COMMERCE FOR DAS ROBERT SHEPHERD AND LABOR FOR
ASS DEP UNDER SECRETARY BLACKMAN

GENEVA FOR PHELAN

E.O. 11652: GDS
TAGS: ETRD, HK
SUBJ: TEXTILES: HONG KONG EA SYSTEM

1. IT HAS BECOME INCREASINGLY CLEAR TO USTEXDEL HERE THAT HONG KONG EA SYSTEM IS NOT FUNCTIONING PROPERLY. IT IS NOT THE FAULT OF HKG; THE HKG AUTHORITIES HAVE BEEN SCRUPULOUS IN REPORTING PROMPTLY ALL EAS APPROVED. THE PROBLEM IS THAT USG IS NOT REACTING FAST ENOUGH TO THESE EA REPORTS AND, AS A RESULT, IN CASES TOO NUMEROUS TO CITE, EAS ALREADY APPROVED FOR THE FIRST SIX MONTHS OF 1978 SUBSTANTIALLY EXCEED THE ENTIRE 1977 NATIONAL TRADE IN A NUMBER OF PARTICULAR CATEGORIES.

2. AS A CASE IN POINT, AS OF JUNE 10, WE WERE ADVISED BY HKG THAT IN CATEGORY 442, EAS APPROVED TOTALLED 346,403 UNITS. THIS COMPARED WTIH TOTAL 1977 NATIONAL TRADE OF 332,172 UNITS AND SERVED AS ONE OF THE BASES FOR SMITH'S REQUEST
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TO GAREL THAT JUNE 10 HKG EA REPORT BE EXAMINED. COMMERCE BEGAN THAT PROCESS, PROPERLY TAKING INTO ACCOUNT DOMESTIC PRODUCTION, COMPARABLE PRICES, ETC. THE COMMERCE ANALYSIS INDICATED THAT FORMAL CALLS WERE IN ORDER FOR CATEGORIES 435, 438, AND 442, BUT BY THE TIME THEMZY
ELWPNS WAS COMPLETED
(A NECESSARILY TIME-CONSUMING PROCESS) HKG'S EAS APPROVED

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FOR CATEGORY 442 ROSE TO 442,020 UNITS AS OF JUNE 24,
TO 466,291 UNITS AS OF JULY 1, TO 489,827 UNITS AS OF JULY 8
AND BY THE TIME USG CALLED ON JULY 17 TO 549,143 UNITS.
THAT MEANS THAT WITHIN A FOUR WEEK PERIOD (JUNE 10 REPORT NOT
BEING RECIEVED, DISTRIBUTED AND ANALYZED FOR ABOUTA WEEK
THEREAFTER) THE EAS APPROVED ROSE BY SOME 203,000 UNITS
OR BY ABOUT 59 PERCENT ABOVE THE JUNE 10 EA REPORT.

3. REGARDLESS OF WHETHER A FORMAL CALL IS IN ORDER OR NOT, BEACUSE
OF THE TIME INVOLVED IN REACTING TO A PARTICULAR WEEK'S REPORT,
IT APPEARS - DOMESTICALLY SPEAKING - THAT WE DO NOT HAVE A FIRM
ENOUGH HANDLE ON THE EAS. IT IS CERTAINLY GOING TO BE DIFFICULT,
FOR EXAMPLE FOR THE USG TO EXPLAIN TO THE COMESTIC INDUSTRY
WHY WE LET HKG APPROVE EAS IN A WOOL CATEGORY SOME 65 PERCENT
ABOUT THE 1977 TRADE LEVEL OR, MORE IMPORTANTLY, WHY WE DIDN'T
INSTANTLY REACT AT 346,403 UNITS.
4. AS A MINIMUM, IT WOULD SEEM TO USTEXDEL THAT CALL CITA
MEMBERS MUST WATCH THE HKG REPORTS MORE CLOSELY. HKG IS
ISSUING EAS ALMOST AS FAST AS THEY COME IN AND MILLS TOLD US
YESTERDAY THAT THE ENTIRE GROUP II LEVEL IS ALREADY ALLOCATED.
IN ADDITION, MILLS SAID HKG RECEIVED 900 MYSE WORTH OF
APPLICATIONS FOR THE 32 MYSE WORTH SWING IN GROUP II FOR
1978. THE QUANTITIES PER CATEGORY OF EAS ISSUED EACH WEEK
BY HKG ARE NOT IN HUNDREDS OF DOZENS BUT IN THOUSANDS OF
DOZENS. ALL OF THIS IS PERFECTLY LEGAL, BUT THE FACT REMAINS
WER ARE NOT REACTING FAST ENOUGH TO THE EA REPORTS.
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5. USTEXDEL INTENDS TO DISCUSS THIS IN DEPTH WITH HKG TODAY.
WE INTEND TO SEE IF HKG WOULD AGREE TO QUOTE PAUSES QUOTE (NOT
RPT NOT CALLS) WHEN EAS REACH A CERTAIN LEVEL WITH RESPECT TO
THE PREVIOUS YEAR'S TRADE (ESPECIALLY IN APPAREL).
THE PAUSES WOULD SERVE TO GIVE US SOME TIME TO
REACT TO THE LATEST EA REPORT. AT THE SAME TIME HKG WOULD
PAUSE IN ISSUING ANY NEW EAS, AS THE PROBLEM FACING US NOW IS
THAT WHILE WE ARE EXAMINING LAST WEEK'S EA PREPORT, HKG IS THIS
WEEK ISSUING NEW EAS. WE WILL, OF COURSE, REPORT THE RESULTS
OF OUR CONVERSATTIONS TODAY, THE PURPOSE OF THIS INTERIM
MESSAGE, HOWEVER, IS TO SINGNAL TO WASHINGTON AGENCIES
THAT WE HAVE AN IMPORTANT PROBLEM FACING US WHICH, IF NOT
PROPERLY RESOLVED, COULD HAVE UNFORTUNATE DOMESTIC
REPERCUSSIONS.
SHOESMITH

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Subject: TEXTILES: HONG KONG EA SYSTEM
TAGS: ETRD, HK
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